



Agenda Date: 02/18/04

Agenda Item: 2A

State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
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IN THE MATTER OF THE ESTABLISHMENT
OF AN ARREARAGE PAYMENT PROGRAM
FOR THE UNIVERSAL SERVICE FUND

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ENERGY

ORDER

DOCKET NO. EX00020091

(SERVICE LIST ATTACHED)

BY THE BOARD:

Background/Procedural History

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. (EDECA or the Act) provides that the Board establish a non-lapsing Universal Service Fund (USF) to assist low-income consumers with the payment of electric and gas bills. On April 30, 2003, in this same docket, the Board approved a USF program. The USF is operated on a statewide basis and is funded through uniform charges on all customers' electric and natural gas bills.

A working group was convened last year to discuss the feasibility of an Arrearage Payment Program (APP). This issue was discussed by the working group and while there was a general belief that it would be appropriate to have a form of arrearage forgiveness, there exists a similar component under the Clean Energy Program called New Jersey Comfort Partners (NJCP). At that time, the Board felt it would be duplicative to have similar programs under Clean Energy and USF. Further, since an APP would require significant computer programming and there was some concern about the cost of such a program, the Board directed that the issue continue to be reviewed by Staff and the working group.

On July 16, 2003 in this same docket, the Board directed Staff to continue to review this issue until it had better data at its disposal. Since that time, the working group has reconvened and has reviewed the issue in more detail and has developed a Straw Proposal.

When the Board created the USF program, it was based on the assumption that 6% of a customer's annual income was an affordable rate for electric and gas utility costs. Approximately 54,000 participants or about 40% of all USF enrollees entered the USF program with an arrearage. The pre-USF arrearages for this population total roughly \$17 million.

The Board and the USF Working Group have acknowledged the need to address this problem by developing an APP to help customers with pre-USF arrearages. The primary goals of the APP are to give customers an opportunity to get out of debt and to create an incentive structure for them to become regular bill payers. The basic premise of the APP is that any customer who pays his/her utility bills for one year will receive full forgiveness of any remaining pre-USF arrearages.

Under the APP, utilities will grant partial forgiveness periodically as customers work toward the goal of full forgiveness at the end of the year. It is anticipated that more frequent forgiveness awards will positively reinforce consistent payments by customers and allow customers to start seeing the 'light at the end of the tunnel' with respect to their arrears. Under the proposal, some utilities will award partial forgiveness every quarter that the customer meets his/her payment requirements and others will award partial forgiveness each month. The different timing of the forgiveness awards is based mainly on the different capacities of utilities' billing and computer systems. Other components include:

- ?? Only pre-program arrearages will be eligible for forgiveness.
- ?? Only USF customers with pre-program arrearages of \$60 or more will be eligible to participate.
- ?? The utilities will administer the APP, with the oversight of the Board and the Department of Human Services.
- ?? The utilities will contact APP participants upon their initial enrollment to alert them to their eligibility in APP and the terms of the program.
- ?? Utilities will examine the possibility of switching all APP customers to budget billing during the summer of 2004.
- ?? APP will be described and explained in all USF marketing and educational materials that are developed.
- ?? After a transition period, the arrearage forgiveness component of the Comfort Partners program will be eliminated and customers will get arrearage forgiveness through the APP.
- ?? Because of administrative difficulties, APP benefits will not be portable for inter-utility moves.

During the first year of the APP, Staff can evaluate how customers react to different frequency of forgiveness awards since there is currently very little data from other states on this topic. With this data, we will have better information with which to possibly move toward a uniform statewide APP.

The cost of the APP is difficult to predict, since there are no programs in other states with these exact parameters. The key variable in determining the cost of the program is the success rate that customers will have in meeting their payment requirements. Therefore, drawing from some relatively similar programs in other states, Staff's initial estimate is that the program will issue between \$7 million and \$8 million in forgiveness for the first year. It is expected that program costs will drop precipitously after the first year, since the program is only open to customers for one year and they cannot participate again. Therefore, only new enrollees will participate in the APP next year, and we would expect far fewer new enrollees compared to the 135,000 that were signed up this first year.

After review of the Proposal, the Board HEREBY APPROVES the Arrearage Payment Program (see attached). The Board believes that this program will encourage bill payment by USF customers; will reduce the amount of write-offs and expenses on collections that ratepayers are already paying for, and will give customers who have faced unaffordable bills prior to USF a way to eliminate their pre-USF arrearages.

Finally, the Board recognizes that, as the Arrearage Payment Program is implemented, there may be a need to modify certain aspects of the program, as it is outlined in the Working Group's proposal. To the extent that such modifications are administrative in nature and/or do not significantly alter the substantive aspects of the program, the Board authorizes Staff to approve such modifications.

DATED: **3/4/04**

BOARD OF PUBLIC UTILITIES

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KRISTI IZZO
SECRETARY

USF Working Group Proposal for the Arrearage Payment Program (APP)

1. Payment Plan

- ?? If an Arrearage Payment Program (APP) customer pays his/her monthly utility bills for a 12-month period, then all of his/her remaining pre-program arrearage will be forgiven at the end of the 12 months. Each customer's monthly utility bill consists of his/her total monthly utility charges, minus a USF credit and any other credits that may be applied, such as Lifeline or LIHEAP.
- ?? APP customers will be evaluated on whether or not they have paid the cumulative total of 12-months worth of monthly bills (i.e. they are not required to make 12 consecutive on time monthly payments). For USF customers, the cumulative total of 12-months of gas and electric utility bills is intended to equal approximately 6% of the customer's annual income.
 - ?? Customers that do not receive forgiveness after the 12-month period will have a 3-month grace period to make up these payments. At any point during this grace period if the customer pays all of the payments due during first 12 months, plus all of the payments due during the grace period, then forgiveness of all pre-program arrearages will be granted. If a customer fails to earn forgiveness by the end of this grace period, forgiveness will not be granted.
 - ?? If after 12 months the customer has paid a portion of his/her pre-program arrearages, forgiveness will be granted for whatever portion of the arrearage that has not yet been paid.

2. Application of Forgiveness Credits

- ?? Utilities will award credits forgiving a portion of the customer's pre-program arrearage on a monthly or quarterly basis. New Jersey Natural Gas, PSE&G and JCP&L will award forgiveness monthly. All other utilities will award forgiveness quarterly.
- ?? Monthly forgiveness awards will be granted to customers who have paid their monthly utility bill in full. Quarterly forgiveness will be granted to customers who have paid the previous three utility bills in full. Again, this does not mean paying three consecutive bills on time, but paying the sum total of charges due over the three-month period. The initial quarterly assessment of an APP customer will occur three months after his/her initial enrollment.
- ?? Utilities that apply monthly forgiveness credits will forgive 1/12 of the arrearage each month, with a maximum of \$100 forgiveness per month. Utilities that apply quarterly forgiveness will forgive 1/4 of the total arrearage each quarter, with a maximum of \$300 forgiven per quarter.
- ?? At the end of 12 months, any unpaid or unforgiven pre-program arrearages will be eligible for forgiveness. Unlike the monthly and quarterly forgiveness awards, there is no cap on

forgiveness that can be awarded to a customer who fully pays 12 months worth of his/her bills.

- ?? Due to the timing of the receipt of certain lump sum assistance benefits (e.g. LIHEAP, Lifeline), there may be periods when a customer's account will have a credit balance and no actual "monthly payment" shall be required at that time. During these periods, the customer will be considered to be fulfilling their monthly obligations and will be eligible to receive forgiveness.
- ?? If a customer does not receive forgiveness for any given month or quarter, forgiveness will not be forgone but delayed until the account is current, with the exception of pre-program arrearages (given that these payments are made up during the 12-month term of the APP or the following 3-month grace period).

3. Eligibility and Consumer Protections

- ?? Only pre-program arrearages, which are arrearages that existed before the bill cycle that a customer first receives a USF credit, will be eligible for forgiveness.
- ?? Only USF customers with pre-program arrearages of \$60 or more will be eligible to participate in the APP.
- ?? All eligible customers will be automatically enrolled in the APP upon enrollment in USF.
- ?? For new USF customers (i.e. those not initially enrolled in the program in October 2003), the 12-month enrollment in APP will begin upon being enrolled in USF, and any arrearage of more than 30 days that is on the customer's account upon enrollment in USF will be eligible for forgiveness.
- ?? For current USF customers who were enrolled in October 2003, their 12-month APP eligibility will begin on April 1, 2004. Their eligible arrearage amount will be any arrearage of more than 30 days that is on their account as of April 1, 2004. This may include some post-program arrearages and is the one exception to the requirement that only pre-program arrearages will be covered.
- ?? Customers in the APP program will be subject to the same collection procedures that govern all customers, except they will not be subject to collection procedures regarding arrears that are eligible for forgiveness under the APP. Utilities cannot terminate or threaten to terminate an APP participant who is making his/her required monthly payments.
- ?? The APP will begin on April 1, 2004. All USF enrollees will continue to be protected from service termination until the APP is operational, even if the program is not in place by the April 1, 2004 deadline.
- ?? A USF customer that makes an intra-utility move shall continue to receive their APP benefits at their new address.
- ?? See Attachment A for the policy regarding inter-utility moves by APP customers.

4. Program Administration and Budget

- ?? Utilities will administer the APP, with oversight by the BPU and Department of Human Services (DHS).

- ?? Utilities will be reimbursed for APP forgiveness payments through the clearinghouse that holds USF funds collected through the SBC.
- ?? Utilities will field inquiries about customers' arrearages, the status of APP credits, and any other questions about the day-to-day implementation of the APP.
- ?? DHS shall keep historical records of which customers have participated in USF so that DHS can inform utilities when a customer has already been participating in USF (and, thus, does not have pre-USF arrears).
- ?? DHS shall handle any customer appeals regarding denial for eligibility based upon past participation in the APP.
- ?? Utilities will examine the possibility of switching all APP customers to budget billing by July 2004, and report back to Board staff by April 15, 2004 on the feasibility of doing so. It would not be in the best interest of customers to begin budget billing when the APP begins in April 2004 because it would cause customers' bills to initially increase. In the long-term, however, the even distribution of billing should help mitigate seasonal changes in the size of customers' utility bills, therefore increasing the likelihood of their success in meeting required USF payments.
- ?? As a result of the implementation of the APP, there is the potential for utilities to experience both savings related to decreased uncollectibles and collection activities and incremental costs related to the implementation of the program. BPU staff suggests that further discussions regarding the treatment of the net financial impact of the APP be reserved until the completion of an evaluation using the USF data tracking system currently being developed with the assistance of Apprise, Inc.

5. Education and Outreach

- ?? Utilities will contact each APP participant upon their initial enrollment to alert them to their participation in APP and the terms of the program.
- ?? Forgiveness credits will be noted on the customer's bill. If Board staff determines that it is not clear from the bill what these credits are for, the utility will include a bill insert or separate mailing that explains the credit to customers.
- ?? Each APP participant will be contacted after their first missed payment that exceeds 30 days to remind them of the importance of on time payments. For customers receiving quarterly forgiveness, if the customer fails to earn forgiveness for a quarter, the customer shall receive a communication notifying them that they did not meet their APP requirements.
- ?? APP customers who are consistently missing their basic USF payments shall be: a) referred to any enhanced education and payment counseling services that are available under USF, b) referred to other available sources of assistance, and/or c) contacted by the utility by phone to reinforce the importance of making their monthly payments in order to receive APP forgiveness.
- ?? The BPU, along with the Working Group, will develop templates for all written APP materials.
- ?? The APP shall be described and explained in all USF marketing and educational materials that are developed.

- ?? Payment counseling and additional educational support shall be contracted out on a statewide basis to a qualified social service agency, or agencies, with relevant experience. Such support will be available to all USF customers.

6. Comfort Partners

- ?? After a transition period, the arrearage forgiveness component of the Comfort Partners program will be eliminated and customers will get arrearage forgiveness through the APP.
- ?? During the transition period, all customers currently enrolled in the Comfort Partners program will complete the program and will receive any arrearage forgiveness benefits they earn under the program.
- ?? Through USF, customers with the highest proportionate energy burden should be identified and referred to Comfort Partners to receive the benefits of that program that do not relate to arrearages, such as weatherization. However, customers should not be referred to Comfort Partners based on the size of their arrearages.

7. Reporting and Evaluation

Data on arrearages and the APP will be collected through the overall USF data collection process, which is currently being developed by the USF working group with the assistance of Apprise, Inc.

Attachment A: Portability policy for inter-utility customer moves

When a customer moves from one utility territory to another utility territory, all APP benefits will not be portable. Making the full benefits portable would require a tremendous amount of coordination among all utilities throughout the state, and is simply cost prohibitive. APP customers will, however, retain a variation of their APP benefits. These benefits are outlined below for different scenarios under which a customer may move to a new utility territory:

- 1) **Customers who participated in the APP for 6 months or more with their old utility** – If a customer has paid 90% of his/her total bills over the course of his/her participation in the APP, then full forgiveness will be granted. If the customer has not made 90% of his/her payments, then he/she will begin a 3-month grace period to make up those payments. At the end of the grace period, if the customer has not made 90% of his/her required payments then normal collection procedures will resume.
- 2) **Customers who have participated in the APP for less than 6 months before closing their account, and have opened a new utility account in New Jersey within three months of closing their old account** – These customers will have to make 90% of the payments due for the period of time they participated in the APP with their old utility. In addition, the customer will have to demonstrate to his/her old utility that he/she has made 90% of his/her required payments to the new utility for a number of months that, when combined with the number of months participating in the APP with the old utility, will equal six months.

For example, if a customer participates in the APP for four months and then switches to a new utility, he/she must pay 90% of the total bills due during that four-month period with the old utility, plus 90% of his/her first two bills due from his/her new utility. Proof of bill payment with the new utility can come in the form of a copy of a bill reflecting the customer's account status. These customers will also be given a three-month grace period to make up any outstanding payments. If the utility needs to set up a Deferred Payment Arrangement (DPA) with the customer in order to maintain records on that customer then the DPA will require a payment of \$1 per month.

- 3) **Customers who have participated in the APP for less than 6 months but do not open a new utility account in New Jersey within three months of closing their old account** – The utility will set up a DPA for these customers' outstanding pre-USF arrearages. This DPA will include a dollar-for-dollar match of APP forgiveness awarded for all partial and full DPA payments.